

Message Text

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PAGE 01 COLOMB 03253 171317Z
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SUBJ: SRI LANKA S FIRST QUARTER BALANCE OF PAYMENTS

1. INTRODUCTION AND SUMMARY

WHILE COMPLETE BALANCE OF PAYMENTS DATA FOR THE FIRST QUARTER OF 1978 ARE NOT YET AVAILABLE, USING THE TRADE, FOREIGN DEBT, AND EXTERNAL ASSETS FIGURES PUBLISHED IN THE MOST RECENT CENTRAL BANK BULLETIN (APRIL) IT IS POSSIBLE TO APPROXIMATE SRI LANKA S BALANCE PAYMENTS POSITION. THE US DOLLAR AMOUNTS SHOWN IN THE TABLE BELOW WERE CALUCLATED USING AVERAGE EXCHANGE RATES RS. 8.41 AND RS.15.39 PER DOLLAR FOR THE FIRST QUARTERS OF 1977 AND 1978, RESPECTIVELY. IMPORTS AND EXPORTS GREW ONLY marginally IN THE FIRST QUARTER OF 1978 AS COMPARED WITH THE SAME PERIOD OF THE PREVIOUS YEAR. THE UNIFICATION AND DEVALUATION OF THE RUPEE EXCHANGE RATE LAST NOVEMBER DOES NOT APPEAR TO HAVE HAD MUCH IMPACT ON THE TRADE ACCOUNT AS YET. EXTERNAL ASSETS ROSE 42.6 PERCENT BETWEEN THE TWO QUARTERS, DUE LARGELY TO A MARKED INCREASE IN THE IMPLICIT SURPLUS ON INVISIBLE TRANSACTIONS. END SUMMARY.

APPROXIMATE BALANCE OF PAYMENTS: FIRST QUARTER 1977 AND 1978
(MILLIONS OF U. S. DOLLARS)

JAN.-MARCH JAN.-MARCH PERCENTAGE

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PAGE 02 COLOMB 03253 171317Z

	1977	1978	CHANGE
EXPORTS	184.0	188.5	2.4
TEA	80.9	82.0	1.4
RUBBER	42.9	38.3	- 10.7
COCONUTS	12.5	12.2	- 2.4
MINOR AG.PRODUCTS	10.5	11.4	8.6

INDUSTRIAL	14.9	26.2	75.8	
OTHERS	13.6	11.2	- 17.6	
IMPORTS	191.3	193.2	1.0	
RICE	33.5	10.9	- 67.5	
FLOUR	31.7	37.9	19.6	
SUGAR	7.5	9.2	22.7	
MINERAL PRODUCTS		26.5	36.8	38.9
CHEMICALS	11.4	9.0	- 21.1	
TEXTILES	23.6	21.4	- 9.3	
BASE METALS	11.7	11.1	- 5.1	
MACHINERY	14.3	20.3	42.0	
VEHICLES	7.0	15.1	115.7	
OTHERS	24.1	21.4	- 11.2	
TRADE DEFICIT	7.3	4.7	- 35.6	
CURRENT ACCOUNTS SURPLUS		2.8	16.4	485.7
NET CAPITAL	32.2	33.5	4.0	
CHANGE IN EXTERNAL ASSETS	35.0	49.9	42.6	

2. EXPORTS

THE 1.4 PERCENT INCREASE IN THE VALUE OF TEA EXPORTS BETWEEN THE TWO QUARTERS WAS DUE TO HIGHER WORLD MARKET PRICES WHICH MADE PYP FOR A 21.1 PERCENT DROP IN EXPORT VOLUME. TEA EXPORTS FELL FROM 49.7 MILLION KILOS IN THE SAME PERIOD THIS YEAR. WHILE RUBBER PRICES WERE ALSO SOMEWHAT HIGHER, THE IMPROVEMENT WAS NOT ENOUGH TO COMPENSATE FOR THE 16.1 PERCENT DROP IN THE VOLUME OF RUBBER EXPORTS, TOTAL UNCLASSIFIED

UNCLASSIFIED

PAGE 03 COLOMB 03253 171317Z

VALUE FELL 10.7 PERCENT. THE VALUE OF COCONUT EXPORTS SLIPPED DOWNWARD BY 2.4 PERCENT WHILE VOLUME ROSE 3.7 PERCENT. THE 8.6 PERCENT INCREASE IN THE VALUE OF MINOR AGRICULTURAL EXPORTS PRIMARILY REFLECTED HIGHER EARNINGS FROM CINNAMON QUILLS AND COIR FIBRE. THE IMPRESSIVE 75.8 PERCENT JUMP IN INDUSTRIAL EXPORTS RESULTED FROM SIZABLE INCREASES IN THE VALUE OF EXPORTS OF PETROLEUM PRODUCTS, TEXTILES, AND SHELLFISH. AS ANTICIPATED, DATA ON GEM EXPORTS REGISTERED A DECLINE FOLLOWING REMOVAL OF THE INCENTIVE OF THE CONVERTIBLE RUPEE ACCOUNTS SCHEME AS SOME EXPORTS MOVE INTO ILLEGAL CHANNELS.

3. IMPORTS

FOLLOWING THE RECORD 1977 RICE HARVEST, RICE IMPORTS IN THE FIRST QUARTER OF 1978 AMOUNTED TO ONLY 49,471 METRIC TONS, DOWN 71.8 PERCENT IN VOLUME AND 67.5 IN VALUE. THE DROP IN RICE IMPORTS WAS PARTIALLY OFFSET BY FLOUR IMPORTS WHICH ROSE 15.4 PERCENT TO 185,520 MT, AN INCREASE OF 19.6 PERCENT IN VALUE. SUGAR IMPORTS WERE ALSO HIGHER BY 34.7 PERCENT IN VOLUME AND 22.7 PERCENT IN VALUE. IMPORTS OF CHEMICALS, TEXTILES, AND BASE METALS WERE DOWN IN THE FIRST QUARTER WHILE MINERAL PRODUCTS, MACHINERY AND VEHICLES ROSE SIGNIFICANTLY. THESE INCREASES REFLECT THE IMPORT LIBERAL-

IZATION PROGRAM IMPLEMENTED IN NOVEMBER 1977. A PORTION OF THE PRIVATE SECTOR INITIALLY REACTED WITH CONSIDERABLE CAUTION TO THE LIBERALIZATION SCHEME AND TOTAL IMPORTS HAVE NOT RISEN AS MUCH AS EXPECTED. HOWEVER, AS BUSINESSMEN ARE ADJUSTING TO THE NEW FREEDOM THE SECOND QUARTER OF 1978 SHOULD SHOW A MARKED INCREASE IN IMPORT FLOWS.

4. BALANCE OF PAYMENTS

THE CURRENT ACCOUNT FIGURES IS CALCULATED BY SUBTRACTING NET CAPITAL FROM THE CHANGE IN EXTERNAL ASSETS. THE VERY LARGE INCREASE IN THE CURRENT ACCOUNT SURPLUS BETWEEN THE TWO QUARTERS IMPLIES A SIZABLE SURPLUS ON INVISIBLE TRANSACTIONS. GIVEN THE STEADY INCREASE IN TOURISM AND TEE SHARP RISE IN THE NUMBER OF SRI LANKANS WORKING UNCLASSIFIED

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PAGE 04 COLOMB 03253 171317Z

IN THE MIDDLE EAST, THIS DOES NOT SEEM UNREASONABLE. AS FLOWS OF PRIVATE FOREIGN INVESTMENT HAVE BEEN VIRTUALLY NIL, THE CHANGE IN SRI LANKA S EXTERNAL DEBT POSITION IS USED TO ESTIMATE NET CAPITAL. THE CAPITAL ACCOUNT PRESENTLY CONSISTS LARGELY OF AID, WHICH AMOUNTED TO DLRS 29.8 MILLION IN THE FIRST QUARTER OF 1977 AND DLRS 30.0 MILLION IN THE SAME PERIOD THIS YEAC. AS THE FREE TRADE ZONE GETS UNDERWAY, HOWEVER, PRIVATE INVESTMENT SHOULD BECOME A SIGNIFICANT FACTOR IN THE CAPITAL ACCOUNT. BASED ON THE CHANGE IN EXTERNAL ASSETS, SRI LANKA IS BALANCE OF PAYMENTS SURPLUS IN THE FIRST QUARTER OF 1978 WAS 42.6 PERCENT LARGER THAN IN THE FIRST QUARTER OF 1977. WHILE IMPORTS ARE EXPECTED TO ACCELERATE DURING THE COURSE OF THIS YEAR, INCREASED FLOWS OF AID AND INVESTMENT SHOULD RESULT IN A CONTINUED BALANCE OF PAYMENTS SURPLUS OF THE YEAR AS A WHOLE. THE 1978 SURPLUS, HOWEVER, IS LIKELY TO BE SMALLER THAN THE RECORD DLRS 202 MILLION RECORDED IN 1977. WRIGGINS

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